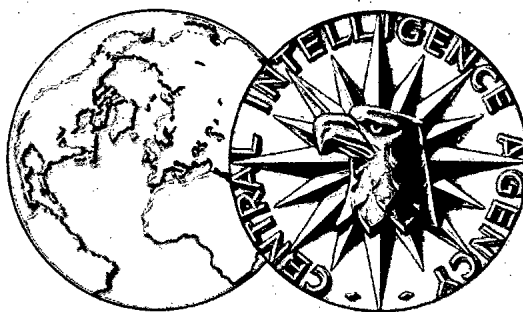


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WEEKLY SUMMARY



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SECRET**H I G H L I G H T S**

The Berlin dispute was brought sharply before the world's attention once again this week. The Soviet Union's action in recognizing a separate Communist government in east Berlin has so broadened the scope of the problem and has so heightened the difficulties of a settlement as to make the currency question a relatively unimportant aspect of the dispute (see page 2). Moreover, by its simultaneous action in formalizing the split in Berlin and accepting the proposal of the UN neutrals to continue negotiations on the currency question, the USSR has revealed that its UN maneuvers are chiefly delaying tactics which permit further consolidation of the Soviet position in Berlin.

Despite the immediate effectiveness of Soviet tactics in Berlin, the intransigence of the USSR has not been effective recently in advancing Soviet objectives throughout western Europe. The continuing East-West tension has spurred western European efforts to achieve greater unity in economic arrangements and in defense plans (see page 4). Meanwhile, mounting opposition in France to the Communist-led "political" strikes has weakened Communist capabilities for economic sabotage (see page 6).

In China, however, Communism moved steadily toward its goal as the Chinese Communists entered upon the final phase of their battle for Central China (see page 9). Belated Nationalist efforts to move the Government to Canton and Chungking will involve a serious loss of prestige and authority and will heighten the Government's inability to maintain control over non-Communist China.

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SECRET**THE BERLIN DISPUTE**

Despite the Soviet Union's acceptance of the proposal by the UN neutrals to continue negotiations on the Berlin currency question, Soviet establishment of a regime for east Berlin, by completing the political and administrative division of the city, has greatly increased the obstacles to a settlement of both the Berlin dispute and the entire German question. The USSR has utilized the UN negotiations to gain time for consolidating the Soviet position in Berlin and eastern Germany. Moreover, by exerting greater pressure upon the western powers to withdraw from Berlin, the USSR has now relegated the currency question to relative insignificance in comparison to the far more explosive problem inherent in the establishment of two separate governments in Berlin.

"Rump" Government Establishment of a Communist "rump" government in Berlin

represents a Soviet attempt to counter the 5 December elections in the western sectors and to block UN interference in city affairs. This latest move has placed the Kremlin in the position of being able to make "paper" concessions to the west on four-power currency control for Berlin with the knowledge that such concessions can only be implemented through a centralized administration in the city. Thus, even if agreement on currency is reached, these recent Soviet moves will make it necessary for any future conference on the Berlin dispute to deal with the problem of city government. In such a conference, the USSR might demand a consolidation of the two separate city governments. Any resulting "compromise" government would: (1) provide the USSR with Communist representation in key positions, far out of proportion to that which could reasonably be expected in an open general election; (2) increase Communist ability to impair the functioning of the Berlin government; and (3) strengthen the Soviet potential for undermining the position of the western powers in Berlin.

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Economic Consequences The immediate effect in Berlin of the creation of a separate Communist government will be to intensify the political and economic impasse by making normal city government virtually inoperable. Following the 5 December elections in the western sectors of the city, the USSR may complete the economic split of the city by carrying out its already publicized threats to take measures which would: (1) require workers living in the Soviet sector and working in the western sectors or vice versa to change either their place of residence or their place of employment; (2) force some of the industrial and commercial enterprises in the west sectors to stop production while municipal gas lines, water mains, and sewers, now functioning as a city-wide unit, were being reconstructed to fit sector boundaries; (3) seriously impair maintenance and operation of surface transportation; (4) cut off electricity for the S-Bahn intercity trains in western sectors; (5) stop subways and elevated trains at zonal boundaries; and (6) disrupt telephone, telegraph, and postal services while they were being re-established on an east-west zonal basis.

Tightening Blockade In addition to possible Soviet actions which would completely cut off still functioning municipal services from the western sectors of Berlin, recent re-groupings of the Brandenburg land police suggest that the USSR may throw a cordon around the western sectors of the city. Hitherto, a considerable unofficial barter of goods and a lively traffic in illicit items between the western sectors of Berlin and Soviet-occupied territory have materially relieved the needs of the western sector population. Although the Soviet noose around Berlin has been deliberately left loose because of trade advantages derived by the USSR, energetic police action could substantially reduce those important commercial operations. If this tightened blockade is imposed and effectively implemented, a material increase in the airlift will be necessary in order to maintain the present level of health and economic welfare of western sector residents.

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SECRET**WESTERN EUROPE**

European Unity The nations of western Europe are progressing at quickened tempo toward unification. East-West tension and the impossibility of providing for recovery and defense without close cooperation are spurring most western European countries to seek some means of achieving greater unity. US efforts to strengthen western European unity through the European recovery program and the projected Atlantic Pact have been accompanied by: (1) agreement on the five-power Brussels Pact for mutual defense; (2) considerable progress toward the creation of an Atlantic Pact (which would in effect enlarge the scope of the Brussels Pact); (3) the attaining of a high degree of economic integration through the European counterpart of ECA, the Organization for European Economic Cooperation; and (4) a customs union movement, both regional (Benelux, Scandinavian, and Franco-Italian) and all-European. These concrete steps toward military and economic cooperation have been paralleled by increased agitation for political unification. The "Congress of Europe" has the support of such leaders as Winston Churchill and Leon Blum; the Italian Government has proposed a "Western European Federation"; and, as the first step on a governmental level toward political unification, the Brussels Pact powers have appointed a committee to study proposals for achieving greater political unity among European nations. Although it will be a long time before the nations of Europe will agree to relinquish any national sovereignty to a real supra-national body, the trend toward economic and military integration will continue and may lay the groundwork for greater unification in the political sphere.

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Italian Colonies Solution of the Italian colonies question at the present session of the UN General Assembly appears more remote in view of: (1) the limited time available for discussion before adjournment (scheduled for 13 December); (2) strong GA sentiment favoring Italian trusteeship for Tripolitania; and (3) the adverse Italian reaction to prospective loss of the colonies and the consequent threat to the stability of the Italian Government. Supporters of Italy's claims to some part of Libya, although unable to gain GA approval for a solution that would grant this claim, seem to have sufficient strength to block the US and British proposal which advocates a British trusteeship over Cyrenaica and postponement on the rest of Libya. Under these circumstances, the US and UK may either be forced to accept Italy's claim, despite bitter opposition by the Arab states, or to accept postponement of the entire Libyan question. Likely alternatives under a postponement plan would be to: (1) defer the entire colony question (including the relatively non-controversial award of Somaliland to Italy and the cession of southern Eritrea to Ethiopia) until the regular 1949 meeting of the GA; (2) take up the matter in a special session in February 1949; or (3) refer the problem either to an ad hoc committee or the "Little Assembly" for study.

Illegal Air Traffic Measures now taken by the French, Italian, and Swiss governments to force US non-scheduled flights to comply with air traffic controls and clearance regulations will reduce illegal air traffic through these countries to Palestine. Although France is undoubtedly sincere in its efforts to prevent any violation of the UN truce, the French at the same time may be setting the stage for participation by their own air carriers in the legal, non-scheduled traffic to Palestine. Meanwhile, in avowed efforts to cooperate with the US and the UN in preventing clandestine air traffic to Palestine, the Swiss are

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maintaining close surveillance of all non-scheduled flights through Geneva, and the Italian Government has forbidden any future clearance for the flagrantly offending US Associated Air Transport.

FRANCE

Communist Potential Communist ability to engage in economic sabotage may have passed its peak in France, although politically the Party can still exert considerable influence. The failure of the coal strike and mounting opposition on the part of labor to "political" strikes will probably compel the Communists to abandon, temporarily at least, further large-scale strike movements. On the political front, however, the Communists, despite their isolation as a parliamentary group, can reduce the effectiveness of the Queuille Government by taking advantage of the disunity among other parties. For example, clever Communist maneuvering in the Assembly prevented the Government from obtaining a clear-cut mandate for strong action against the instigators of Communist-inspired strikes and sabotage. Although the public has come to recognize and resent Soviet inspiration behind the recent strikes in France, the Government's inability to take strong anti-Communist measures will not now necessarily convince the French people of the truth of De Gaulle's claim that he alone is capable of controlling the Communist Party.

GERMANY

Soviet Purges Purges, reorganizations, and general high-handed activities of Soviet Zone officials at all levels have apparently so alienated even those Germans committed to the Communist line that the Soviet authorities

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SECRET**GERMANY**

fear that any secret balloting will record popular disapproval of Soviet actions and policies. The elections of the Communist-controlled Peasants' Mutual Aid Association (scheduled in the Soviet Zone for 15 November) have been abruptly postponed until January 1949 on the pretext that peasants are busy with autumn sowing. The Congress of Agricultural Cooperatives and the party conference of the "opposition" Liberal Democratic Party have also been postponed. Works council elections, nearly half completed and going against the Communist-controlled Socialist Unity Party, have also been terminated on a flimsy excuse.

AUSTRIA

Soviet Clearing-House The Administration of Soviet Assets in Austria (USIA) is assuming functions which far transcend its original purpose in Austria. Although originally established as an agency to manage some three hundred Austrian firms seized by the USSR as external German assets, USIA also acts to an increasing extent as an international clearing-house for imports and exports. In this capacity, USIA serves as a purchasing, selling, and transport agency for transactions with the Satellites, for illegal exports from Austrian industry, and for clandestine East-West trade in goods, raw materials, and industrial products. These transactions have included goods smuggled from Germany, such as ball bearings and pharmaceutical supplies, as well as surplus foodstuffs from eastern Europe.

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SECRET**E A S T E R N E U R O P E****YUGOSLAVIA**

Increased Communization Marshal Tito has apparently elected to maintain his struggle against the Cominform on dialectical grounds and to continue his efforts to prove conclusively that his regime is following the pure Marxist-Leninist line. This interpretation is suggested by recently redoubled efforts of the Tito regime to complete the communization of the country by initiating a drive for the collectivization of agriculture. The present session of the National Assembly has enacted new supporting legislation for such a long-range collectivization program and is expected to vote large sums for agricultural machinery stations and capital construction. Moreover, the importance of the Communist Party as the leader of all popular front organizations has been re-emphasized. In pursuing this Communization program, Tito is probably motivated by his desire to increase the dictatorial control of the Communist Party over the country and to demonstrate the hollowness of the original Cominform accusation that Yugoslavia had strayed from the true Marxist line. Tito's continued claims to be the apostle of true Communism will not, however, improve the prospects for a settlement of the Tito-Stalin rift. Tito's present position actually emphasizes the basic disagreement with the Kremlin over the autonomy to be granted to a Satellite Communist state. An admission by the Kremlin that Tito has the right to make his own interpretations of Marxist doctrine would undermine the Stalinist concept of Communist expansion.

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F A R E A S T

CHINA

Military Situation The Communists are entering upon the final phase of their battle for Central China and the Nationalist capital of Nanking. As a result of clever strategy, the Communists have stopped the southern drive of the encircled Hsuehou garrison and appear to have nullified any military contribution by the 12th Army Group, which had been en route from the southwest to relieve the Hsuehou garrison. Meanwhile, a large force of first-line Communist troops extracted from the Hsuehou perimeter has driven south in rapid, well-coordinated moves and is in the process of encircling, bypassing, or eliminating the remaining second-rate Nationalist defenders along the Huai River line in the Pangfou area. US military field observers consider the Nationalist situation hopeless in Central China. The Nationalist Ministry of Defense will probably make an interim move to Namchang while the key personnel of Chiang Kai-shek's administration will probably be divided between Canton and Chungking. The impending Nationalist military collapse in Central China will signify the end of organized, effective Nationalist military resistance. Moreover, the removal of Chiang's Government from Nanking would involve a serious loss of prestige and authority. The transferred Government would probably be unable to maintain control in the greater part of non-Communist China for long.

Communist Policy Recent statements from authoritative Chinese Communist sources emphasize the strong ideological affinity existing between the USSR and the Chinese Communist Party (CCP) and indicate

SECRET**CHINA**

that Soviet leadership, especially in foreign affairs, will probably be faithfully followed by any Communist-dominated government in China. This pro-Soviet orientation has been revealed by: (1) recent Chinese Communist statements echoing the Soviet view that "the world is divided into two camps"; and (2) the CCP Central Committee endorsement in July of the Cominform condemnation of Tito. Chinese Communist propaganda has been accusing the "US State Department and US espionage organizations" of jointly plotting to "destroy the national liberation movement" in China. Thus a convenient pretext is being fabricated for possible future suppression or liquidation of those Chinese Communists unwilling to follow the Stalinist line.

Autonomous Taiwan Chinese officials in Taiwan may attempt to set up autonomous rule if Nanking falls to the Communists. Mounting criticism of the National Government, together with unusual local military conferences, suggests that Governor Wei Tao-ming and other Chinese officials in Taiwan are attempting to capitalize on native dislike of rule by mainland Chinese. An autonomous regime under such leadership would appeal to many resident Chinese and upper-class Taiwanese, and its establishment would be facilitated by the firm control which the present provincial government now exercises. Such a new regime, however, would have difficulty, on the one hand, absorbing any Nationalist elements which might attempt to use the islands as a base of operations against the Chinese Communists, and, on the other, gaining the support of native Taiwanese who seek complete independence from Chinese rule.

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INDONESIA

Concessions Unlikely Strongly antagonistic pressures continue to impede the progress of Dutch-Republican negotiations on the Indonesian question. Neither party appears disposed to make any concessions on such major unresolved problems as: (1) the disposition of the Republican Army; (2) the composition and employment of a proposed federal army; and (3) the establishment of a high command for all military forces in Indonesia. Conservative elements in the Netherlands delegation still favor resumption of police action to quell alleged Republican truce violations; and most political parties in the Republic, in addition to being lukewarm toward the negotiations, are reiterating demands heretofore unacceptable to the Dutch. However, the renewal of negotiations has postponed, at least temporarily, Dutch police action and the inevitable economic and political chaos which the use of force would produce.

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